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SUBJECT: BRITISH DCM IN PYONGYANG ON CONDITIONS IN NORTH
KOREA

REF: 05 SEOUL 1264

Classified By: POL M/C JOSEPH Y. YUN. REASONS 1.4 (B, D).

SUBJECT

11. (C) British DCM to Pyongyang Lindsay Skoll told poloffs on March 6 that the Kim Jong-il regime displayed no signs of instability, opining that through the effective use of the state security apparatus and continued economic assistance from China and the ROK, the regime's staying power might be nearly infinite. China's economic influence in North Korea was subtle but pervasive, especially in its near-dominance of the DPRK's resource industries. Skoll predicted the DPRK would return to the Six Party Talks, but noted that North Korean officials were infuriated at China's role in the financial actions taken against Banco Delta Asia (BDA). Noting a sharp rise in exchange rates since late 2005, Skoll reasoned that the BDA case had caused a serious shortage of hard currency. Reports of the improved food situation in North Korea appeared largely cosmetic, and living conditions in non-urban parts of North Korea remained "medieval." The government's policy of harvest multiple crops from the same plot of land had all but exhausted the soil capacity. END SUMMARY.

NO SIGN OF REGIME COLLAPSE

12. (U) On March 6, British DCM to the DPRK Lindsay Skoll met with poloffs to share her observations on North Korea's social, political, and economic conditions. Skoll said there was no evidence that the DPRK was close to a collapse. On the contrary, the regime's capacity for survival appeared almost infinite. The state effectively restricted movement and information, thus crippling any effort to organize a coup. The key to overthrowing the regime, asserted Skoll, was the ability to organize and control the military. The state security apparatus virtually guaranteed that this was denied to anyone. The members of the ruling elite were fully aware that their welfare was tied to Kim Jong-il and the regime and would not do anything to jeopardize the status quo. The effective state security apparatus also instilled a pervasive sense of fear, even among relatively senior officials. Skoll recalled Foreign Ministry officials who disappeared for about six months, presumably sent to

reeducation camps. She specifically cited one individual who returned as an empty shell, with no hint of his original personality. Although information from the outside world -- especially from South Korea -- was spreading slowly, Skoll believed there would be no instability in North Korea until Kim Jong-il's death.

CHINA'S DISCREET, BUT PROFOUND ROLE IN PROPPING UP REGIME

13. (C) Skoll pointed out that China and South Korea's interest in preventing regime collapse guaranteed continued economic assistance. The PRC, in particular, had a profound impact on the regime's survival. Although not readily visible, China's economic presence in the DPRK was pervasive. For example, Chinese firms appeared to dominate the DPRK's resource industries, such as metals. Skoll confirmed reports that Chinese businesses had expanded investment in North Korea, in part, to recapture money owed by the DPRK for previous projects. This phenomenon of expanding unsuccessful investments was so common that it strongly implied a degree of control from Beijing. Indeed, the magnitude of Chinese economic activity alone suggested that the investment was policy-driven. (NOTE: Per reftel, former British Ambassador to Pyongyang David Slinn told us last year it was unclear whether Beijing could exert direct control over Chinese entrepreneurs. END NOTE.) Border trade was also on the rise, Skoll reported, adding that she had witnessed North Koreans dumping truckloads of ginseng in exchange for television sets and other goods in Dandong, China.

HARD CURRENCY SHORTAGE AND BANCO DELTA ASIA

14. (C) Skoll thought the DPRK would likely return to the Six Party Talks, although the financial actions against Banco Delta Asia (BDA) remained a big stumbling block. She was certain that the freezing of the DPRK's assets was hurting the regime, as evinced by the shortage of hard currency, and that North Korean officials were infuriated by the situation, especially China's actions. Skoll pointed out, however, that a dramatic rise in the exchange rate coinciding with financial actions taken against Banco Delta Asia in Macau was the most salient issue in current DPRK economics. Hard currency was noticeably short in supply. The current black market exchange rate was KPW 7,500 to the Euro, up from KPW 4,000 in December, and KPW 3,000 in the fall. (NOTE: David Slinn, the former British Ambassador to Pyongyang, told poloffs last year that the exchange rate had averaged between KPW 2,200-2,400 to the Euro. END NOTE.)

REPORTED IMPROVEMENT IN FOOD SITUATION LARGELY COSMETIC

15. (C) According to Skoll, market activity in Pyongyang did not appear particularly vibrant compared to previous years. The Tong-il Market, for example, did not stock a greater number of goods than in the past. Rice was no longer available in the formal markets, but could still be found on the black market.

16. (C) Skoll, who will complete her two-year assignment in October, remarked that living conditions in North Korea were harsh, in spite of a bumper harvest in 2005. The food situation was better toward the end of the year due to a combination of favorable weather conditions and mass mobilization of people for planting and harvesting rice throughout 2005. Skoll said, however, that the ROKG's figure of a ten percent increase in rice production was overly optimistic. The traditional lean months of April and May would be difficult regardless of the bumper crop. For example, even Foreign Ministry officials had been visibly gaunt last Spring. The good harvest and the widespread "feel-good" atmosphere during the August-October Arirang Festival -- during which Pyongyang residents' food rations nearly doubled -- provided the cosmetic appearance of improvements in the food situation. This phenomenon was not sustainable however, as current average rations approached

the 600-gram mark depending on people's work unit.

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COPING WITH THE COLDEST WINTER IN A CENTURY

¶17. (C) Noting the harsh weather the Korean Peninsula experienced during December 2005 (reportedly the coldest December in 40 years) Skoll took it for granted that a significant number of people perished from the cold. Pyongyang residents, including the relatively affluent, coped by huddling together in their apartments for shared body heat. Many performed physical labor outdoors to avoid the damp coldness of their dwelling units in old, concrete buildings. Hard drinking was another coping mechanism. Skoll added that the power supply was better in February and the weather had also warmed somewhat.

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LIMITED ABILITY TO DISTRIBUTE FOOD, VIRTUAL SOIL EXHAUSTION

¶18. (C) Skoll stressed that living conditions in Pyongyang and other urban centers were incomparably better than provincial areas, where the situation was "medieval." (She first described conditions outside Pyongyang as primitive, then corrected herself, quipping that "primitive" conveyed an inaccurately positive description of the situation.) For example, the increased agricultural output in 2005 appeared to make little difference in the provinces due to their limited ability to use the bumper crop. Machinery was old and dilapidated, and no fuel was available to operate the machines anyway. Even if the crop were harvested successfully, storage was inadequate or unavailable. Even if storage was found, transportation to populations centers was unsatisfactory or nonexistent. The result was a huge waste of such food as was produced.

¶19. (C) Policies that exhausted the capacity of farms to produce crops were another serious problem, said Skoll. In some places, the regime was attempting triple cropping, leaving the soil so nutritionally exhausted that no amount of fertilizer assistance from South Korea would make a difference. Baked, scorched earth was common throughout the countryside. Citing one telling example, Skoll recalled seeing workers harvesting still-unripe maize on August 10. When Skoll asked about the apparent folly of harvesting the crop before it was ready, local authorities cited orders to harvest on that day, saying they had a four-day window to harvest all the maize in that plot of land and plant a new, third crop. The provinces also suffered from landslides during the summer monsoon season due to large-scale deforestation.

VERSHBOW